

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY BRUSSELS
INFO AMEMBASSY BELGRADE
AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE

C O N F I D E N T I A L STATE 173646

BRUSSELS FOR USEEC

E.O. 11652: GDS

TAGS:EEC, YO, ECIN
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SUBJECT: EC/YUGOSLAV RELATIONS

REF: BRUSSELS 12688

1. SUMMARY. IN RESPONSE TO REF, THERE IS NO SHORT ANSWER.
WE ARE CONCERNED OVER THE IMPLICATIONS OF AN EC

PREFERENTIAL AGREEMENT WITH YUGOSLAVIA AND WOULD PREFER THAT THE EC STOP SHORT OF AN OUT-AND-OUT PREFERENTIAL ARRANGEMENT (WHICH WE DO NOT BELIEVE IS THE ONLY WAY TO STRENGTHEN TRADE TIES BETWEEN THE EC AND YUGOSLAVIA). AT THE SAME TIME, THE POLITICAL IMPORTANCE OF STRENGTHENING YUGOSLAV TIES TO THE WEST WOULD BE A SIGNIFICANT FACTOR TO BE CONSIDERED IN ADDITION TO THE TRADE POLICY DISADVANTAGES OF ANOTHER EC PREFERENTIAL AGREEMENT -- IF THAT IS WHAT IT COMES DOWN TO. UNTIL WE ARE SURE WHETHER AN "ALGERIA-TYPE" SOLUTION IS IN FACT IN THE CARDS, WE DO NOT WANT TO GIVE THE COMMISSION ANY ENCOURAGEMENT. END SUMMARY.

2. WE DO NOT MUCH LIKE THE IDEA OF YET ANOTHER EC PREFERENTIAL AGREEMENT, NOT LEAST FOR ITS POSSIBLE PRECEDENTIAL IMPACT (ON OTHER EC TRADING PARTNERS, SUCH AS IRAN) AND TIMING (DURING THE MTN'S FINAL PHASE). YUGOSLAVIA'S MEDITERRANEAN STATUS MIGHT HELP EXPLAIN SUCH AN AGREEMENT TO OTHERS, BUT IN OUR VIEW IT IS NOT

SANCTIONED BY THE 1973 CASEY-SOAMES UNDERSTANDING. IN ANY CASE, WE WOULD NOT FORESWEAR OUR GATT RIGHTS AND WOULD WANT TO TAKE A CLOSE LOOK AT THE PARTICULARS.

3. WE FULLY RECOGNIZE, HOWEVER, THAT YUGOSLAVIA IS A UNIQUE PROBLEM WHICH MAY REQUIRE SPECIAL CONSIDERATION. THE POLITICAL IMPLICATIONS, ESPECIALLY FOR THE POST-TITO
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PERIOD, SHOULD YUGOSLAVIA TURN INCREASINGLY TO THE SOVIETS AND CEMA IN THE ABSENCE OF IMPROVED ECONOMIC RELATIONS WITH THE WEST -- AND THE EC IN PARTICULAR -- ARE OBVIOUS. WE APPRECIATE THE IMPORTANCE OF A SUCCESSFUL RENEGOTIATION OF THE EC/YUGOSLAV AGREEMENT, AND HAVE URGED THE COMMISSION AND MEMBER STATES TO KEEP THE POLITICAL DIMENSION FIRMLY IN MIND. WHAT WE HOPE CAN BE AVOIDED IS A BREAKDOWN OF THE NEGOTIATIONS LEADING TO INCREASING YUGOSLAV ECONOMIC DEPENDENCE ON THE EAST. IN THIS CONNECTION, WE BELIEVE AN IMPROVED EC/YUGOSLAV RELATIONSHIP SHORT OF AN OUT-AND-OUT PREFERENTIAL AGREEMENT IS POSSIBLE, AND WOULD BE GREATLY PREFERRED.

4. AT THIS POINT, OUR UNDERSTANDING IS THAT THERE IS CONSIDERABLE DOUBT THE MEMBER STATES WILL ALL AGREE ON THE EC'S MOVING IN THE DIRECTION OF A PREFERENTIAL AGREEMENT. THERE ALSO STILL APPEARS TO BE SOME QUESTION WHETHER BELGRADE WILL WANT TO GO THAT ROUTE. UNTIL WE HAVE A BETTER FIX ON BOTH EC AND YUGOSLAV INTENTIONS, WE DO NOT WISH TO COMMIT OURSELVES REGARDING AN "ALGERIAN SOLUTION" OR BECOME EMBROILED IN AN EXTENDED DEBATE OVER INTERPRETATIONS OF CASEY-SOAMES. IN ITS DISCUSSIONS WITH

THE COMMISSION IN THE MEANTIME, THE MISSION SHOULD
REAFFIRM THAT A PREFERENTIAL AGREEMENT WOULD GIVE US
PROBLEMS AND THAT THE MATTER IS UNDER REVIEW. VANCE

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